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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PREL](#) [BL](#)  
SUBJECT: PETROBRAS-BOLIVIAN GOVERNMENT RELATIONS  
INCREASINGLY TENSE

REF: A. LA PAZ 968

[1](#)B. BRASILIA 754  
[1](#)C. LA PAZ 869

[1](#)1. (SBU) Summary: Petrobras representatives told Econoffs that in several difficult meetings with the GOB, the Brazilian energy giant vowed not to invest another cent in Bolivia until key issues were resolved. In those meetings, GOB officials reportedly displayed a confounding ignorance of the hydrocarbons sector, and even "offered" to take control of Petrobras' refineries -- for free. The GOB's intention to increase the sale price of gas to Brazil and to nationalize the hydrocarbons sector has prompted Brazil to investigate alternatives to Bolivian gas, including by building regasification plants. Perhaps due to Petrobras' tough line, the GOB has yet to issue its long-awaited nationalization decree. Problems in the hydrocarbons area suggest a possible early souring of relations between Brazil and the Morales government. End summary.

#### Meetings Accomplished Little

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[1](#)2. (SBU) In an April 19 meeting with Econoffs, Petrobras Director of Institutional Relations Dr. Arturo Castanos said that meetings between Petrobras and Bolivian government officials in both Bolivia and Brazil during the past week had gone poorly -- and that tensions between the GOB and Petrobras, which first surfaced in early March (ref A), continue to grow. Castanos lamented that GOB officials, including Hydrocarbons Minister Soliz Rada and YPFB (Bolivian state oil company) official Morales Olivera, lacked a basic understanding of the economic realities of the sector. He speculated that Bolivia was following Venezuela's example, and that Bolivia believed it would be able to twist the companies' arms. The problem, Castanos said, was that GOB officials failed to realize Bolivia was not in Venezuela's league with respect to markets and production quantities.

13. (SBU) Brazilian Embassy contacts confirmed that the meeting between Petrobras, the Brazilian Energy Minister, and the GOB in Rio de Janeiro had been a disaster. They told us that Bolivian Hydrocarbons Minister Soliz Rada, realizing that no agreement would be reached, had declared at the end, "We'll have to get our Presidents to work this out." According to Brazilian Embassy contacts, Bolivia's gas negotiations with Argentina are not going well either.

#### Refineries for Free: Such a Deal!

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14. (SBU) As an illustration of the GOB's ignorance, Castanos explained that YPFB officials, led by Morales Olivera (whom Castanos described as the "spokesman" of Venezuela), made a "generous" offer for the Bolivian refineries owned by Petrobras. Morales, with a straight face, told Petrobras that the GOB did not want to nationalize the refineries, did not want to pay anything for them, yet wanted to gain control of 50% plus one vote. Although the GOB would have control, Petrobras would continue operating and investing in the refineries until such time as the GOB told Petrobras to leave. Naturally, Petrobras rejected this proposal outright, Castanos said.

#### Brazil Investigating Other Options

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15. (SBU) In response to continued confusion in Bolivia, Brazil is investigating alternatives to Bolivian gas (ref B). This includes the construction of two roughly \$350 million regasification plants that would enable Brazil to import liquefied natural gas from other countries at approximately the same cost as Bolivian gas. If Bolivia were to insist on a significant gas price increase, Brazil may be pushed to

pursue this option. Castanos noted that, contrary to Bolivian press reports, price changes were not discussed during any of the past week's meetings. Brazilian Embassy contact, Alfredo Camargo, added that judging from the press reports the GOB had grossly unrealistic expectations. He said that Brazil might agree to a price increase of 50 to 70 cents per MCF, but that more would be impossible.

16. (SBU) Moreover, the Brazilian government's acceptance of a price increase would likely be conditioned on eliminating the price formula in the Gas Supply Agreement between the two nations (which is supposed to remain in effect until 2019.) Camargo explained that under the contract formula, the price would probably increase by 50 or more cents anyway before the end of 2006 due to oil price increases. The Brazilian and Bolivian governments could both save face, he suggested, by agreeing to an increase now and scrapping the formula. Camargo acknowledged that this decision might be difficult for the Brazilian government because of October presidential elections, a reluctance to appear to be giving in to Bolivian pressure, and resistance from Petrobras.

#### Supreme Decree Still Pending

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17. (SBU) Following Petrobras' meetings with the GOB, the GOB's promised mid-April "nationalization" decree was not issued (ref c). Castanos told us that Petrobras had not seen a copy of the decree, but speculated that it was being revised again ("for the 15th time") in response to Petrobras' refusal to accept the GOB's plan to turn the company into a service provider, charge it a 50% direct tax in addition to general taxes and a surtax, and grant YPFB control over its operations. The GOB told Petrobras that after the decree was issued, there would be a six-month transition period before the terms of the decree would be implemented and during which details would be negotiated. Petrobras vowed to invest not one cent until those issues were resolved, Castanos emphasized.

#### Comment:

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18. (SBU) Castanos claimed that the GOB was not concerned about offending Bolivia's current hydrocarbons investors

because it believed that PDVSA (Venezuela's state oil company) would step in and "save" Bolivia if the other companies fled. However, the delay in issuing the nationalization decree suggests GOB interest in making the decree palatable for the companies and for Brazil. Whether intentionally or not, GOB actions have begun to alienate Bolivia's large and influential neighbor, and could foreshadow an unexpected early souring in one of Bolivia's most important bilateral relationships. End comment.  
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